

Message Text

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TAGS: EFIN, CI, EAGR, EALR
SUBJECT: CAUAS ANNOUNCES A SLIGHTLY LESS AUSTERE BUDGET FOR 1977

1. SUMMARY. FINANCE MINISTER JORGE CAUAS ANNOUNCED THE 1977 BUDGET TO A NATIONWIDE RADIO AND TELEVISION AUDIENCE ON EVENING OF DECEMBER 2. CAUAS IMPLIED THAT FISCAL EXPENDITURES IN THE NEW YEAR WOULD RISE, IF ONLY MODESTLY. HE ANNOUNCED, HOWEVER, 30 PERCENT INCREASES IN THE HOUSING AND PUBIC WORKS SECTORS, WHICH TEND TO GENERATE EMPLOYMENT. INCOME TAXES WILL BE REDUCED SLIGHTLY AND COVERAGE OF THE VALUE ADDED TAX (VAT) WILL BE EXTENDED. GOC EMPLOYEES, ESPECIALLY PROFESSIONALS, WILL GET SUBSTANTIAL PAY BOOSTS. CAUAS WARNED OF TOUGHER MEASURES AGAINST TAX EVADERS. TAKING DIRECT AIM AT HIS CRITICS, CAUAS ATTRIBUTED THE SUCCESSES OF HIS FINANCIAL POLICIES TO A REFUSAL TO HEED COUNSELS FOR INFLATIONARY PUBLIC SPENDING, AND FORIXRNING FOREIGN EXCHANGE RESERVES. END SUMMARY.

2. CAUAS SAID THAT THE BUDGETARY ALLOCATIONS AS A PROPORTION OF THE NATION'S TOTAL RESOURCES IN THE NEW FISCAL YEAR WOULD BE ABOUT THE SAME AS IN 1976. PRESUMABLY THE GOC ANTICIPATES AT LEAST MODEST GDP GROWTH IN 1977, HENCE A SOMEWHAT HIGHER LEVEL OF GOVERNMENT SPENDING. CAUAS CLAIMED THAT PESO EXPENDITURES WOULD BE JUST ABOUT ENTIRELY FINANCED FROM CURRENT PESO REVENUES. THE GOC ALSO EXPECTS TO SPEND 521 MILLION DOLLARS
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OF WHICH 342 MILLION WILL SERVICE THE EXTERNAL DEBT. ON THE BASIS

OF A PROJECTED YEAR'S AVERAGE COPPER PRICE OF 60 CENTS THE GOC
PROJECTS DOLLAR REVENUES OF 300 MILLION.

3. THE SOCIAL SERVICES AND DEVELOPMENT WILL INCREASE
ITS SHARE FOR 59 TO 51 PERCENT OF THE BUDGET. HEALTH AND
EDUCATION EXPENDITURES ARE TO REMAIN ABOUT THE SAME WHILE PUBLIC
WORKS AND HOUSING EXPENDITURES WILL RISE BY 30 PERCENT EACH.
TWENTY ONE THOUSAND HOUSES ARE TO BE COMPLETED; ANOTHER SEVEN THOUSAND
WILL BE FINANCED FROM EXTERNAL (HIG) CREDITS.

4. CAUAS ANNOUNCED THAT CORFO (GOC DEVELOPMENT AGENCY AND TRUST
ADMINISTERING MOST STATE ENTERPRISES) WOULD BE SELF-FINANCING
IN 1977 AND, MOREOVER, THAT IT WOULD ASSUME RESPONSIBILITY FOR
SERVICING ITS EXTERNAL DEBTS. STATE-OWNED RAILROADS, AIRLINE,
COAL AND NITRATE COMPANIES WILL CONTINUE TO RECEIVE FISCAL
SUBSIDIES.

5. CORPORATE AND PERSONAL INCOME TAX RATES ARE TO BE ADJUSTED
SLIGHTLY DOWNWARD IN THE NEW BUDGETARY YEAR. THE INDIRECT TAX
BURDEN, HOWEVER, WILL BECOME SOMEWHAT MORE ONEROUS AS PRESENT
EXEMPTIONS FROM THE VAT END AND THE LOWER RATE SERVICES TAX
IS REPLACED BY THE VAT. AN UPWARD ADJUSTMENT IN THE LOWER RANKS
OF THE WAGE SCALE WILL COMPENSATE THE LOWEST PAID WORKERS FOR
THE HEAVIER BURDEN OF INDIRECT TAXES.

6. NOTING A RISING PUBLIC CONCERN ABOUT TAX EVASION, CAUAS
PROMISED STRICTER ENFORCEMENT AND CALLED ON THE PRIVATE SECTOR TO
COLLABORATE WITH THE GOVERNMENT IN ELIMINATING VIOLATIONS OF THE
TAX LAWS.

7. THE NEW BUDGET LAW CALLS FOR AN AVERAGE REAL PAY RAISE OF 12.2
PERCENT FOR CIVIL SERVANTS. PROFESSIONALS WILL RECEIVE REAL
PAY BOOSTS OF 20 PERCENT TO NARROW THE LARGE DIFFERENTIAL BETWEEN
THE PUBLIC AND PRIVATE SECTORS.

8. CAUAS ANNOUNCED THAT THE CENTRAL BANK (CB) REQUIREMENT FOR
30 DAY DEFERRED PAYMENT ON IMPORTS WAS BEING ELIMINATED NOW THAT
THE CB HAD ADEQUATE FOREIGN EXCHANGE RESERVES. REQUIREMENTS ON
THE COMMERCIAL BANKS REGARDING THEIR FOREIGN EXCHANGE POSITIONS
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ARE ALSO BEING RELAXED, SAID CAUAS.

9. CAUAS PREDICTED THAT THE ECONOMY WOULD CONTINUE TO EXPAND
IN 1977 AS A RESULT OF HAVING ADOPTED IN THE PAST PRUDENT
MEASURES AT OPPORTUNE MOMENTS. IN AN OBVIOUS REFERENCE TO THOSE
CRITICS URGING A HIGHER LEVEL OF SPENDING, ESPECIALLY SO AS TO
REDUCE UNEMPLOYMENT, CAUAS WARNED AGAINST THE "DECEITFUL EXPEDIENT"
OF INFLATIONARY PUBLIC EXPENDITURE. ONE LESSON TO BE DRAWN FROM HIS

SUCCESSFUL MANAGEMENT OF CHILE'S FINANCIAL AFFAIRS, HE SAID,
WAS THAT CHILE SHOULD NEVER AGAIN TRY TO MAINTAIN AN ARTIFICIALLY
HIGH STANDARD OF LIVING OUT OF TEMPORARILY HIGH COPPER REVENUES
BUT RATHER SHOULD SAVE A PORTION FOR RAINY DAYS.

10. MOE DETAILED ANALYSIS OF THE BUDGET WILL FOLLOW BY AIRGRAM.
DISCUSSION OF RECENT INFLATIONARY TRENDS BY SEPTTEL.
POPPER

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